



Can village fund improve community welfare in central java province?

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Abstract

Village fund is state budget allocated to all villages in Indonesia. This fund is used to finance rural administrative government, rural development, rural empowerment and community development. One of the Village Fund Allocation's (Alokasi Dana Desa/ADD's) goals is to reduce poverty and inequality as well as to improve community welfare. Poverty alleviation is a global action under the Sustainable Development Goals (SDGs). This research is aimed to analyze the impact of Village Funds on community welfare by employing the intervening variable poverty levels in Central Java Province. Secondary data from 29 districts in Central Java were used in this research. This was a quantitative research which employed Path Analysis Method. The independent variable in this research was Village Fund and the dependent variable was community welfare which utilized poverty as the intervening variable. Based on the Path Analysis Method, this research found that Village Fund had no impact on community welfare in Central Java province. However, through indirect path analysis, it was found that Village Fund had an impact on community welfare in terms of poverty level. This finding showed that Village Fund had a direct impact on reducing poverty level, and the poverty level affected the community welfare in Central Java accordingly.

Keywords: Village fund; sdgs; path analysis; poverty

INTRODUCTION

Improving social welfare is one of Indonesia's development goals. Community welfare is a manifestation of the efforts to achieve the nation's goals mandated in the 1945 Constitution of the Republic of Indonesia. Development has become the Government's top priority in recent years. The central and regional governments continued to develop various sectors. Development aims to improve the quality of a particular or the whole sector, both on a regional or national scale. Some experts conducted studies on development and came up with several opinions. Soeparmoko (Sirait, Yulmardi dan Bhakti, 2018) mentioned that economic development is carried out to improve the welfare of the community from economic and social perspectives.

The community's socio-economic growth and progress as well as changes in the structure of the Indonesian economy have two important consequences. First, the lower-middle community class increasingly needs a comprehensive social protection system. Second, there is a potential for increasing disparities between low and middle-upper income classes. The social protection system is, therefore, needed to meet basic needs and improve access to basic services for the less fortunate people and protect them from possible socio-economic shocks. In reducing economic disparities, it is necessary to expand access to employment opportunities and sources of local economic activity.

During the last 5 years, the poverty level in Indonesia, especially in Central Java province, tended to decline. However, the poverty level in Central Java was still above the national poverty level. In 2018, Central Java's poverty level reached 11.32% while at the national level, it was only 9.66%.

In accordance with the mandate of the 2005–2025 Long-Term Development Plan (Rencana Pembangunan Jangka Panjang/RPJP) and the President's Vision and Mission, the main target of national development is to reduce the poverty level to 7.0-8.0% by 2019. The targets for realizing development that can be enjoyed by all levels of society are: (1) Increased labor-intensive investment to expand decent work opportunities for the less fortunate people; (2) Increased access for micro and small businesses to develop skills, assistance, venture capital, and technology; (3) Establishing partnerships between the national government, local government, and the private sectors/State-Owned Enterprises/Regional-Owned Enterprises in developing community's capacity and skills in the context of improving community livelihoods; (4) Availability of quality facilities and infrastructure to support economic activities; (5) Increased coverage of basic services that include legal identity, educational facilities and infrastructure, health, basic infrastructure, and inclusive economic facilities for the underprivileged, including persons with disabilities and the elderly; and, (6) Increased social protection, productivity and fulfillment of basic rights for underprivileged people.

As shown in Figure 1, the fluctuating economic growth had occurred in Central Java Province during 2014-2018. In order to maximize regional development intended to gain optimum economic growth, the Central Government creates policies that enable Local Governments to be more flexible in regulating their-own regions. Law Number 22 of 1999 gives regional governments greater responsibility to regulate their-own regions (the right to regional autonomy). Regional autonomy right is given to local governments as the basis to regulate their-own regions. This right aims to reduce regional dependence on central government and it is expected that each region can maximize their potential to gain income or something useful for the welfare of the region. Village fund is one of the important components to this case.

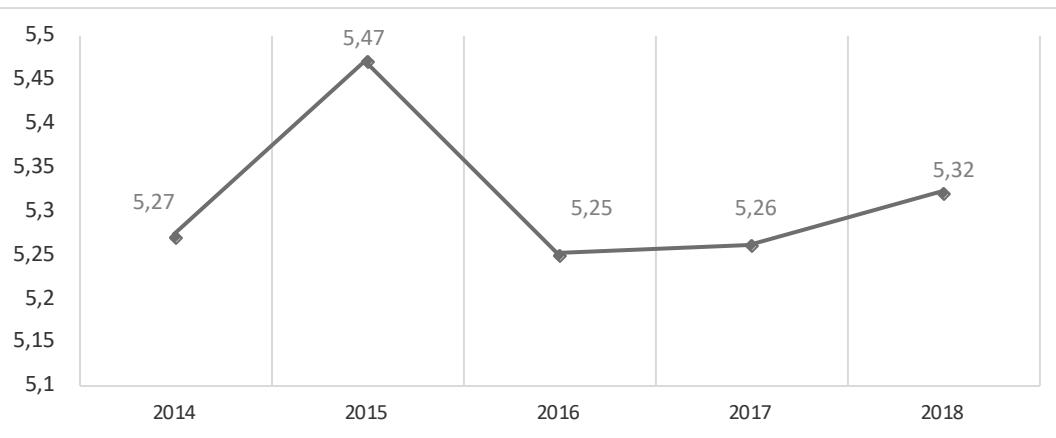


Figure 1. Rate of gross regional domestic product in central java province (in percent) during 2014-2018

Human Development Index (HDI) is a reflection of the community welfare, where regional autonomy is a means of improving community welfare. Successful regional autonomy will affect the economic condition of a region. The economic increase in certain area with infrastructure development will create industries and trigger the increase of community life quality.

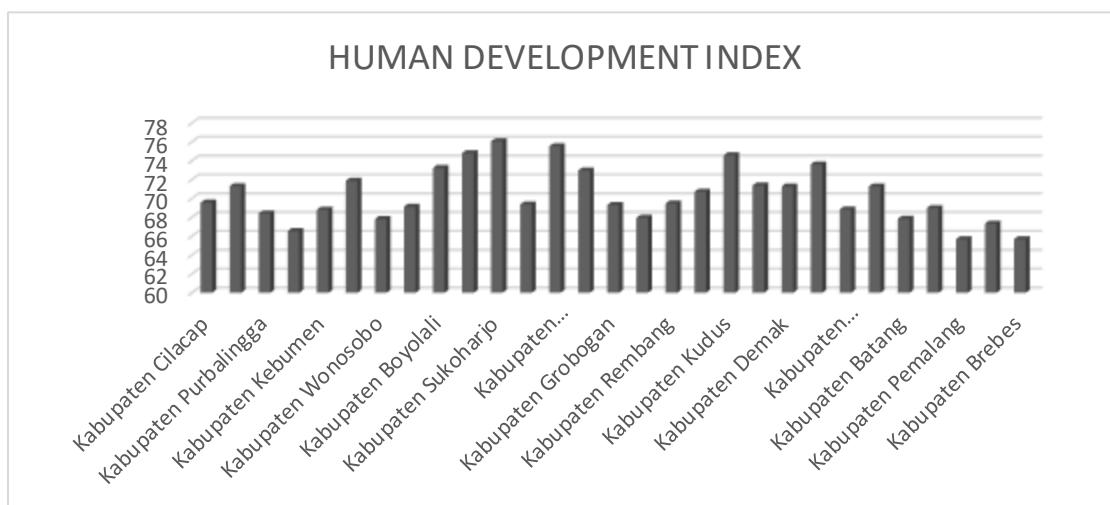


Figure 2. Human development index in central java (in percent) during 2018

As shown in Figure 2, in Central Java, the Human Development Index (HDI) differs from one region to another. This indicates that the efforts of each region in managing their regional finances to achieve public welfare are not optimal. Boyolali, Klaten, Sukoharjo, Karanganyar, Sragen, Kudus are some of the regions which have high Human Development Index, while the other areas are considered to have low HDI. Village Fund is one of the aspects presumed to influence the HDI. The village fund disbursed annually to all villages in Central Java is considered to be able to improve community welfare.

The research conducted by (Nilam Indah, Susilowati dan Hadi, 2017) showed that the Village Fund had a positive impact on the poverty in Regencies/Cities in East Java. This condition showed that the Village Fund was still ineffective in reducing poverty in every district/city in East Java. This happened because in its utilization, Village Fund was still used for constructing rural physical facilities and infrastructures, while its use for community economic empowerment was still relatively small. Moreover, the quality of facilities and infrastructure built were still not good due to the lack of technical skills in management, both in terms of planning and management.

METHOD

This research employed a quantitative descriptive method using a population consisting of 29 regencies/cities in Central Java Province during 2015-2018. Secondary data comprising 3 variables—i.e., village fund, poverty, and Human Development Index—were employed to project the community welfare in Central Java. The data source was taken from Indonesia Statistics (*Badan Pusat Statistik/BPS*). Path analysis, which was used as the analysis tool, was an extension of Multiple Linear Regression analysis. The use of regression analysis was aimed to estimate causal relationships between variables (casual models) that have been previously determined based on theories.

The Path Analysis was used to determine the correlation pattern between three or more variables which could not be used to confirm or reject imaginary causal hypotheses. In describing the Path Diagram, the points to be considered were the one-headed arrow representing the regression correlation and the two-headed arrow representing the correlation (Ghozali, 2011: 249-250). The Path Analysis was used, as it was able to explain the magnitude of the direct and indirect impacts. The magnitude of the direct impact was the value of the path coefficient of the independent variable, while the indirect impact was the multiplication of the path coefficient between the independent variables in one direction (Arumsasi, Khafid dan Dwp, 2015).

The Path Analysis technique was first developed by Swell Wright in 1930s. This technique was used to test the causal correlation which was thought to be rational between one and another variable in non-experimental conditions (Muhibin, Sambas A, 2017). The Path Analysis was a method that examined the direct or indirect impact of the hypothesized variables as a result of the treatment impact on these variables. The Path Analysis aimed to explain the direct and indirect impacts on a set of variables as causal variables and on other variables which were the effect variables (Sudaryono, 2011).

The research conducted by Iqbal *et al.* (2021), the study aims to examine the performance of Village Funds and their impacts on post-disaster economic re-developments. The descriptive statistic analysis was applied to secondary data derived from the 2015-2019 financial reports of 19 villages in Pidie Jaya (Aceh-Indonesia). It shows that performance in terms of economic output is very poor. The Village Fund failed to generate the Original Village Income through the establishment of the Village Owned Enterprises (BUMDes).

The Village (Polish: Sołecki) Fund, established for rural and urban-rural communes, is one of the ways for achieving this goal. Resources from the Village Fund may be used for, e.g. spatial planning, which is one of a commune's own tasks. The activities related to the Village Fund have triggered studies focused on the units which run such funds and, on the amounts, earmarked for goals pertaining to spatial planning (Feltynowski, 2019). The study conducted by Hemtanon dan Gan, (2020) evaluates financial performance of Village Funds (VFs) and Saving Groups for Production (SGPs) to determine how well the MFIs are performing financially and how to improve the institutions' future performances. The study evaluates MFIs' performance, including MFI characteristics, outreach, productivity, financial structure and financial performance. The results indicate that both VFs and SGPs are profitable and financially sustainable.

Indraningsih *et al.*, (2021) analyze the impact of the Village Fund, especially for agricultural development. The results showed that the Village Fund affected increasing farmers' production and income. The process of transporting production facilities and yields has become easier through the improvement of infrastructure farming and facilities. In the future, Village Funds aside for infrastructure development should be allocated for community economic empowerment, i.e., training in agricultural, livestock, and fisheries skills according to the village's potential, so that it can support sustainable agricultural development in rural areas.

RESULT AND DISCUSSION

The econometric model used was a path analysis model supported by data management using SPSS.

The Econometric model used was:

$$Y_1 = \alpha + \beta_1 X + e_1$$

$$Y_2 = \alpha + \beta_1 X + \beta_2 Y_1 + e_2$$

Where:

- Y_1 : the poverty level in Central Java Province
- X : the amount of village fund in Central Java Province
- Y_2 : the welfare of the community in Central Java Province
- E_1 : substructure error 1
- e_2 : substructure error 2

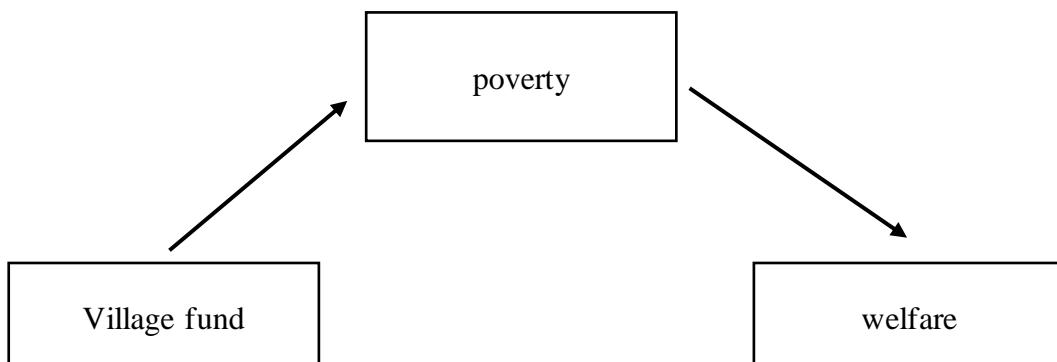


Figure 3. Path diagram

Tabel 1. Regression 1
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1 (Constant)	110.868	13.441		8.249	.000
VILLAGE FUND	1.878E-10	.000	.244	2.687	.008

a. Dependent Variable: POVERTY

Stage 1 of regression

The Stage 1 of regression showed that Village Fund had positive impact on reducing the poverty rate in Central Java Province. It can be seen in the negative regression coefficient number which had a probability value of 0.008, which was less than 0.05 (see Image 1).

The econometric equation in Stage 1 of regression was:

$$\text{poverty}_1 = \alpha + 1.878E - 10 \text{ village fund} + e_1$$

Tabel 2. Regression 2
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1 (Constant)	72.338	0.722		100.121	0.000
VILLAGE FUND	2.62E-12	0	0.072	0.854	0.395
POVERTY	-0.023	0.004	-0.498	-5.873	0.000

a Dependent Variable: WELFARE

Stage 2 of regression

The Stage 2 of regression showed that the village fund had no impact on community welfare, as shown by the probability number that was greater than 0.05. Meanwhile, the poverty variable had a negative impact on people's welfare because it had a probability rate of 0.00. It means that whenever there is an increase in the poverty rate, it will reduce community welfare and vice versa.

Table 3. Results of path analysis

No	variables	types of correlation	beta value	note
1	Village Fund - Poverty	L	0.244	significant
2	Village Fund - Welfare	L	0.072	insignificant
3	Poverty - Welfare	L	-0.498	Significant
4	Village Fund - Welfare	TL	-0.122	significant

Based on the results of the path analysis, it can be seen that village fund had positive impacts on the poverty level, but it did not have direct correlation to community welfare. This path analysis also showed that village fund had an indirect negative impact on community welfare (Table 1).

CONCLUSION

The Path Analysis created a pattern between three variables: village fund, poverty, and welfare. The Village Fund had positive impacts on the poverty, while poverty had negative impacts on the welfare. On the other hand, the Village Fund does not have any significant direct impacts on community welfare either. The positive impact of Village Fund on poverty showed that the Village Fund in Central Java Province has not been able to reduce poverty. This happened because the Village Fund allocation was prioritized on facilities and infrastructure development and only a small amount of the fund was allocated for empowerment and efforts to reduce poverty in the community.

Meanwhile, poverty had negative impacts on community welfare. This was in line with previous research where both of them had opposite correlation and negated each other. When poverty decreased, the community welfare would improve. On the other hand, the resulting pattern in the path analysis showed that village fund had indirect impacts on welfare through the intervening variable, namely poverty.

Based on the analysis result, the Government as the stakeholder and implementer of the policy needs to synchronize the allocation of village fund with the needs of respective village development and empowerment. In addition, the community is obliged to provide full support in increasing the potential of the village so that a synergy in efforts to reduce poverty and improve village welfare could exist.

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